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**TRADE CREDIT DETERMINANTS OF MANUFACTURING COMPANIES  
IN MALAYSIA**

**By:**

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**UUM**  
**Universiti Utara Malaysia**

**Thesis submitted to  
School of Economics, Finance and Banking  
Universiti Utara Malaysia,  
in Partial Fulfillment of the Requirement for the Master of Science (Finance)**



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## ABSTRACT

This study examines the determinants of trade credit of manufacturing sector in Malaysia for the period 2013-2017. Utilizing a sample of 114 manufacturing companies listed on Bursa Malaysia, the findings suggest that size negatively influences trade credit, indicating that smaller firms rely more on trade credit to finance their operations. Whereas, firm age and inventory have a positive and significant relationship with trade credit. This implies that older firms and firms with high inventory level use more trade credit as the financial source. This study does not find conclusive evidence to support that the profitability, assets structure, and sales growth influence the level of trade credit of manufacturing companies in Malaysia.

*Keywords: Trade Credit, Accounts Payable, Manufacturing Sector*



## ABSTRAK

Kajian ini mengkaji penentu kredit perdagangan di Malaysia untuk tempoh 2013-2017. Menggunakan sampel 114 syarikat pembuatan yang disenaraikan di Bursa Malaysia, hasil kajian menunjukkan saiz firma mempunyai hubungan negatif dengan kredit perdagangan, menunjukkan bahawa firma yang lebih kecil bergantung kepada kredit perdagangan untuk membiayai operasinya. Manakala, umur firma dan inventori mempunyai hubungan positif dan signifikan terhadap kredit perdagangan. Ia menunjukkan firma yang lebih tua dan firma yang mempunyai tahap inventori yang tinggi menggunakan lebih banyak kredit perdagangan sebagai sumber kewangan. Kajian ini tidak menemui bukti konklusif untuk menyokong bahawa keuntungan, struktur aset dan pertumbuhan jualan mempengaruhi tahap kredit perdagangan untuk syarikat pembuatan di Malaysia.

*Kata Kunci: Kredit Perdagangan, Akaun Belum Bayar, Sektor Pembuatan.*



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## LIST OF ABBREVIATIONS

BM	Bursa Malaysia
GDP	Gross Domestic Product
SMEs	Small and Medium Enterprise
OLS	Ordinary Least Square
AP	Accounts Payable
AGR	Annual Growth Rate
ROA	Return on Assets
CA	Current Assets
TA	Total Assets
INV	Inventories
CAT 1	Category 1
CAT 2	Category 2
CAT 3	Category 3
CAT 4	Category 4
CAT 5	Category 5
CAT 6	Category 6

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1. Background of Study**

Trade credit is defined as “a loan that is tied in both timing and value to the exchange of goods” (Ferris 1981). It thus allows the separation of the exchange of goods or services and money over time (Petersen and Rajan 1997; Cunningham 2004). A trade credit contract is a legally binding agreement between the buyer and supplier. Trade credit appears in firms’ balance sheets as accounts receivable on the supplier’s side and accounts payable on the buyer’s side. Trade credit is a type of credit that suppliers extend to buyers, allowing the latter to purchase goods from the former without immediate payment. The suppliers offer credit terms that allow the buyers to delay the payment. Thus, trade credit suppliers are effectively funding their clients with short-term credit, normally involves 30 to 60 days (Cuñat and Garcia-Appendini 2012).

Trade credit plays an important role in financing. The importance of trade credit as short-term credit has been established in different studies (Petersen and Rajan 1997; Berger and Udell 1998; Deloof and Jegers 1999; Summers and Wilson 2002; Danielson and Scott 2004; Huyghebaert 2006; Gitman 2009 and among others). As an important component of short-term finance, trade credit shows a great influence on business development. The receiving and granting of trade credit is an essential element of a business life (Lewellen, McConnell and Scott 1980; Petersen and Rajan

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## APPENDICES

### Summarize ap agr roa ca ta inv logage

Variable	Obs	Mean	Std. Dev.	Min	Max
ap	560	.110026	.1662239	0	2.512267
agr	556	.0285766	.2607933	-1	3.093633
roa	570	.0208433	.5790976	-13.3462	.4288
ca	562	.5496065	.1904013	.0199422	1
ta	562	5.507062	.7093518	1.414973	9.127706
inv	561	.1867233	.1433638	0	.8587233
logage	570	1.544714	.211203	1.079181	2.269513

### Correlate ap agr roa ca ta inv logage (obs=553)

	ap	agr	roa	ca	ta	inv	logage
ap	1.0000						
agr	0.0301	1.0000					
roa	-0.0483	0.2086	1.0000				
ca	0.0826	-0.0923	-0.0721	1.0000			
ta	-0.1448	0.0686	0.3076	-0.1484	1.0000		
inv	0.1397	0.0556	0.0527	0.5006	-0.1603	1.0000	
logage	0.0405	0.0417	0.0830	0.0010	0.3946	0.0091	1.0000

### reg ap agr roa ca ta inv logage

Source	SS	df	MS	Number of obs	=	553
Model	.702121247	6	.117020208	Prob > F	=	0.0003
Residual	14.677359	546	.02688161	R-squared	=	0.0457
Total	15.3794803	552	.027861377	Root MSE	=	.16396
				F(6, 546)	=	4.35
				Adj R-squared	=	0.0352
ap	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
agr	.0229398	.0278243	0.82	0.410	-.0317159	.0775955
roa	-.0054824	.0129535	-0.42	0.672	-.0309273	.0199624
ca	.0050413	.0433737	0.12	0.908	-.0801584	.0902409
ta	-.0396912	.0117867	-3.37	0.001	-.0628441	-.0165382
inv	.1260567	.0573003	2.20	0.028	.0135006	.2386128
logage	.0823999	.0360722	2.28	0.023	.0115426	.1532573
_cons	.174736	.0717598	2.44	0.015	.0337769	.3156951

### reg ap agr roa ca ta inv cat3

Source	SS	df	MS	Number of obs	=	553	
							F(6, 546) = 3.80
Model	.616784087	6	.102797348	Prob > F	=	0.0010	
Residual	14.7626962	546	.027037905	R-squared	=	0.0401	
				Adj R-squared	=	0.0296	
Total	15.3794803	552	.027861377	Root MSE	=	.16443	

ap	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
agr	.0227208	.0279244	0.81	0.416	-.0321315	.0775731
roa	-.0069698	.0129725	-0.54	0.591	-.0324518	.0185123
ca	-.0040082	.0442714	-0.09	0.928	-.0909712	.0829549
ta	-.0314556	.010984	-2.86	0.004	-.0530317	-.0098795
inv	.132374	.0573754	2.31	0.021	.0196704	.2450776
cat3	-.0552906	.0387904	-1.43	0.155	-.1314872	.020906
_cons	.2625338	.0678499	3.87	0.000	.1292551	.3958126

### reg ap agr roa ca ta inv cat4

Source	SS	df	MS	Number of obs	=	553	
							F(6, 546) = 3.45
Model	.562206967	6	.093701161	Prob > F	=	0.0023	
Residual	14.8172733	546	.027137863	R-squared	=	0.0366	
				Adj R-squared	=	0.0260	
Total	15.3794803	552	.027861377	Root MSE	=	.16474	

ap	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
agr	.0248194	.0280952	0.88	0.377	-.0303685	.0800074
roa	-.0071472	.0130098	-0.55	0.583	-.0327026	.0184082
ca	.0076841	.0435878	0.18	0.860	-.0779363	.0933045
ta	-.028859	.0109237	-2.64	0.008	-.0503167	-.0074013
inv	.133823	.0574768	2.33	0.020	.0209204	.2467257
cat4	.0028287	.0247251	0.11	0.909	-.0457391	.0513966
_cons	.239211	.0665754	3.59	0.000	.1084357	.3699863

# reg ap agr roa ca ta inv cat5

Source	SS	df	MS	Number of obs	=	553	
							F(6, 546) = 4.28
Model	.690296472	6	.115049412	Prob > F	=	0.0003	
Residual	14.6891838	546	.026903267	R-squared	=	0.0449	
				Adj R-squared	=	0.0344	
Total	15.3794803	552	.027861377	Root MSE	=	.16402	

ap	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
agr	.0283277	.0278825	1.02	0.310	-.0264425	.0830978
roa	-.0096165	.0129919	-0.74	0.460	-.0351367	.0159037
ca	.0049236	.0433944	0.11	0.910	-.0803167	.090164
ta	-.0304713	.0108408	-2.81	0.005	-.0517662	-.0091764
inv	.1255486	.0573473	2.19	0.029	.0129003	.2381969
cat5	-.0467319	.0213874	-2.19	0.029	-.0887436	-.0047203
_cons	.257217	.066299	3.88	0.000	.1269846	.3874493

# reg ap agr roa ca ta inv cat6

Source	SS	df	MS	Number of obs	=	553	
							F(6, 546) = 4.31
Model	.694924672	6	.115820779	Prob > F	=	0.0003	
Residual	14.6845556	546	.02689479	R-squared	=	0.0452	
				Adj R-squared	=	0.0347	
Total	15.3794803	552	.027861377	Root MSE	=	.164	

ap	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
agr	.0221962	.0278419	0.80	0.426	-.0324942	.0768866
roa	-.0077859	.0129417	-0.60	0.548	-.0332076	.0176358
ca	.002142	.0434428	0.05	0.961	-.0831934	.0874774
ta	-.0332595	.010987	-3.03	0.003	-.0548416	-.0116775
inv	.1222592	.057448	2.13	0.034	.0094129	.2351054
cat6	.0363235	.0163297	2.22	0.027	.0042469	.0684002
_cons	.2421869	.0658309	3.68	0.000	.1128741	.3714996